

# PERWAJA HOLDINGS BERHAD (798513-D)

(Incorporated in Malaysia)

## NOTES TO THE INTERIM FINANCIAL REPORT FOR THE QUARTER AND NINE MONTHS ENDED 30 SEPTEMBER 2009

### PART A – EXPLANATORY NOTES PURSUANT TO FRS 134

#### 1. Basis of reporting preparation

The interim financial statements are unaudited and have been prepared in accordance with the requirement of Financial Reporting Standards 134 (FRS134): “Interim Financial Reporting” and Paragraph 9.22 of the Listing Requirements of Bursa Malaysia Securities Berhad.

The interim financial statement should be read in conjunction with the audited financial statements for the year ended 31 December 2008. These explanatory notes attached to the interim financial statements provide an explanation of events and transactions that are significant to an understanding of the changes in the financial position and performance of the Group since the year ended 31 December 2008.

As at 30 September 2009, the following FRSs and Issues Committee (“IC”) Interpretations were in issue but not yet effective and have not been applied by the Group:

FRS issued and effective for financial periods beginning on or after 1 July 2009:

FRS 8 Operating Segments

FRS 8 replaces FRS 114<sub>2004</sub> Segment Reporting and requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of this standard only impacts the form and content of disclosures presented in the financial statements of the Group.

FRS, Amendments to FRS and IC interpretation issued and effective for financial periods beginning on or after 1 January 2010:

FRS 4	Insurance Contracts
FRS 7	Financial Instruments: Disclosures
FRS 101 (Revised 2009)	Presentation of Financial Statements
FRS 123	Borrowing Costs
FRS 139	Financial Instruments: Recognition and Measurement
Amendments to FRS 1 and FRS 127	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Amendments to FRS 2	Vesting Conditions and Cancellations
Amendments to FRS 7, FRS 132, FRS 139 and IC Interpretation 9	Improvements to Accounting for Financial Instruments
Amendments to FRSs	Annual Improvements to FRSs (2009)
IC Interpretation 9	Reassessment of Embedded Derivatives
IC Interpretation 10	Interim Financial Reporting and Impairment
IC Interpretation 11	FRS 2: Group and Treasury Share Transactions
IC Interpretation 13	Customer Loyalty Programmes
IC Interpretation 14	FRS 119: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The possible impacts of FRS 7 and FRS 139, amendments to FRS 7, FRS 132, FRS 139 and IC Interpretation 9 on the financial statements upon their initial application are not disclosed by virtue of the exemption given in these standards.

The adoption of FRS 101 (Revised 2009) will only impact the form and content of the presentation of the Group's financial statements in the next financial year. There will be no financial impact on the financial statements upon the adoption of this standard.

The possible impact of FRS 123 on the financial statements upon its initial application is not disclosed as the existing accounting policies of the Group are consistent with the requirements under this new standard.

The Annual Improvements to FRSs (2009) is expected to have no material impact on the financial statements of the Group's upon their initial application.

IC Interpretation 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation is expected to have no material impact on the financial statements of the Group upon its initial application.

The other FRS, Amendments to FRSs and IC Interpretations are not relevant to the Group's operations.

## **2. Auditors' report**

The preceding audited annual financial statements were not qualified.

## **3. Seasonal or cyclical factors**

The business operation of the Group is generally affected by the demand in construction sector, commodities market condition and global economy, as well as the fourth quarter and first quarter festive seasons.

## **4. Items of unusual nature and amount**

There were no unusual items affecting assets, liabilities, equity, net income or cash flow of the Group during the current quarter and financial year-to-date.

## **5. Material changes in estimates**

There were no changes in the estimates of amount relating to the prior financial years that have a material effect in the current quarter under review.

## **6. Debt and equity securities**

During the quarter under review, Perwaja Steel Sdn Bhd has redeemed the first tranche of its Murabahah Medium Term Notes facility of RM50.0 million on 25 September 2009.

Save for the disclosure above, there were no issuance, cancellation, repurchases, resale and repayments of debt and equity securities during the financial year-to-date.

## **7. Dividends paid**

No dividend was paid during the financial year-to-date.

**8. Segmental information**

Segmental information is not provided as the Group's primary business segment is principally engaged in the manufacturing and trading in direct reduced iron, steel billets, beam blanks and blooms and its operation is principally located in Malaysia.

**9. Valuation of property, plant and equipment**

There was no valuation of the property, plant and equipment in the current period under review.

**10. Capital commitments**

The total capital commitments being approved and contracted for as at the end of current quarter and financial year-to-date are amounting to RM34.7 million.

**11. Subsequent event**

There was no material event subsequent to the current quarter.

**12. Changes in the Composition of the Group**

There were no changes in the composition of the Group during the financial year-to-date.

**13. Contingent Liabilities and Contingent Assets**

Save as disclosed in Note 24, there were no contingent liabilities or contingent assets, which upon becoming enforceable, may have a material effect on the net assets, profits or financial position of our Group.

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## PART B: EXPLANATORY NOTES PURSUANT TO APPENDIX 9B OF THE LISTING REQUIREMENTS OF BURSA MALAYSIA SECURITIES BERHAD

### 14. Review of performance of the Company and its principal subsidiaries

Revenue and pre-tax loss for the 9 months ended 30 September 2009 was lower at RM1,160.4 million and RM155.2 million compared to revenue and pre-tax profit of RM2,113.6 million and RM303.0 million recorded in the corresponding financial period of 2008.

For the current quarter under review, the Group recorded revenue of RM409.6 million and a pre-tax profit of RM13.1 million as compared to revenue of RM978.0 million and pre-tax profit of RM80.3 million respectively in the preceding year corresponding quarter.

The decrease in revenue and pre-tax profit was mainly due to the lower steel prices and decline in demand resulting from the global financial crisis.

### 15. Material changes in the quarterly results compared to the results of the preceding quarter

The Group recorded revenue of RM409.6 million in the current quarter under review, a slight decrease of 5.2% or RM22.7 million from RM432.3 million recorded in the immediate preceding quarter. However, the Group recorded a pre-tax profit of RM13.1 million as compared to preceding quarter pre-tax loss of RM94.9 million. This is mainly due to higher selling prices of steel products and improvement margins for the Group.

### 16. Prospects for the financial year 2009

Perwaja is cautiously optimistic on the prospects for the remaining quarter of financial year 2009 on the continued recovery of the world economy, and in particular the Malaysian economy, which will spur the demand for steel and steel related products.. Improvement in steel demand, albeit at a slow pace, will depend on, amongst others, the effects of government stimulus packages, continuous stabilization of financial systems and return of consumer's confidence.

### 17. Variance between Actual Profit and Forecast Profit

The Group did not issue any profit forecast in a public document during the current financial period.

### 18. Taxation

	Current quarter 30.09.2009 RM	Current year-to-date 30.09.2009 RM'000
Current income taxation	-	(111)
Deferred taxation	-	27,000
	<hr/>	<hr/>
	-	26,889
	<hr/>	<hr/>

The statutory tax rate was reduced to 25 percent from the previous year's rate of 26 percent effective in the current year of assessment.

The Group's effective tax rate for the current quarter and financial year to date are lower than the prevailing statutory tax rate mainly due to the utilization of deferred tax assets not recognized in prior years.

The deferred tax assets represents the tax benefits derived from the expected utilization of unutilized tax losses in the foreseeable future, based on the prevailing applicable tax rate.

**19. Profit from sale of unquoted investments and/or properties**

There was no disposal of unquoted investments and/or properties for the current quarter and financial year-to-date.

**20. Quoted securities**

There was no purchase or disposal of quoted securities for the current quarter and financial year-to-date and the Group did not hold any quoted securities as at the end of the financial year-to-date.

**21. Status of Corporate Proposal**

There were no corporate proposals announced but not completed as at the reporting date.

**22. Group borrowings and debt securities**

The Group's borrowings as at 30 September 2009 were as follows:-

	Secured RM'000	Unsecured RM'000	Total RM'000
<u>Short term borrowing:-</u>			
Trade Financing	351,856	-	351,856
Hire Purchases	4,226	-	4,226
ICULS	-	4,864	4,864
Term Loan	50,000	-	50,000
Related Party Loan	-	21,070	21,070
Government Loan	-	29,723	29,723
	<u>406,082</u>	<u>55,657</u>	<u>461,739</u>
<u>Long Term borrowings:-</u>			
Term Loan	210,000	40,000	250,000
Hire Purchase	8,582	-	8,582
Related Party Loan	-	64,634	64,634
Government Loan	-	88,510	88,510
	<u>218,582</u>	<u>193,144</u>	<u>411,726</u>
Total	<u>624,664</u>	<u>248,801</u>	<u>873,465</u>

**23. Off Balance Sheet Financial Instruments**

There were no off balance sheet financial instruments as at the reporting date.

## 24. Material Litigation

Save as disclosed below, as at 30 September 2009, neither our Company nor any of our subsidiaries is engaged in any material litigation and arbitration either as plaintiff or defendant, which has a material effect on the financial position of our Company or our subsidiaries and our Directors are not aware of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the financial position or business of our Company or our subsidiaries.

**(i) Shah Alam High Court Civil Suit No. MT4-22-204-2002  
Nesaga Technology Sdn Bhd (“Nesaga”) vs.  
Perwaja Steel Sdn Bhd (“PSSB”)**

PSSB is alleged to have failed to adhere to 4 maintenance agreements in 1996 whereby Nesaga was to provide various services to PSSB. PSSB had entered into a settlement dated 28 June 1996 with various terms and conditions and PSSB allegedly agreed to all the terms in the settlement via a letter dated 1 July 1996.

On 22 March 2002, Nesaga filed a Writ of Summons and Statement of Claim at the High Court of Malaya at Shah Alam against PSSB. The claim was for LIRE356,996,800.00, RM404,180.00 and USD826,117.40 (approximate total claim is RM4,151,858.54 based on relevant conversion rate in year 2002) with interest calculated at the rate of 8% per annum from 1 July 1996 until date of judgment.

Nesaga has also filed an application under Order 27 Rule 3 of the Rules of High Court 1980 on 4 March 2005 for judgment on admission and was subsequently being struck off on 19 May 2009. PSSB has filed an application to amend its Defence and to include a Counter-claim which application was allowed on 10 December 2008. Nesaga has filed an appeal on 16 December 2008 against the Order dated 10 December 2008. This court has fixed 9 November 2009 for mention of Nesaga’s said appeal and case management.

PSSB’s solicitors are of the view that PSSB stands a fair chance of defending the case.

**(ii) Kuala Lumpur High Court Civil Suit No. D1-22-785-2005  
PSSB vs. Arus Zaman Sdn Bhd (formerly known as MK Farlin  
Development Sdn Bhd) (“Arus Zaman”)**

The claim was filed by PSSB in 2005 whereby PSSB is claiming a sum of RM15.5 million together with damages, interest calculated at the rate of 8% from 15 July 1999 to date of judgment and interest calculated at 8% from the date of judgment to the date of full and final realisation and costs for construction works done under an agreement dated 20 October 1998 for the Multimedia University Campus Development in Cyberjaya.

Arus Zaman has filed a Counter-Claim against PSSB for the sum of RM69,014.13 for overpayment together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. On 18 January 2006, the court allowed Arus Zaman’s application to amend their Defence and Counterclaim which claim is amended to RM400,227.52 together with interest at the rate of 8% per annum from date of judgment until full realisation and costs. PSSB has since filed an application to amend their Reply and Defence to Counterclaim and the application was allowed

on 19 November 2008. The matter is now fixed for mention of case management on 14 December 2009.

The solicitors of PSSB are of the view that since a substantial part of the documents for PSSB's claim, at first sight are not certified, PSSB may not have a strong claim against Arus Zaman, until and unless the necessary documents substantiating PSSB's claim are complete.

**(iii) Kuala Lumpur High Court Suit No. D8-22-1464-2007  
Kuala Lumpur High Court Suit No. D2-22-1594-2007 (consolidated by  
the Order of the Court of Appeal dated 17 January 2008)  
Megasteel Sdn Bhd ("Megasteel") vs PSSB**

Megasteel filed Writ of Summons and Statement of Claim for sum of RM36,079,860.33 ("Megasteel's Claim") as damages for an alleged breach of contract against PSSB. On 17 December 2007, PSSB in its defence argued, *inter-alia*, that Megasteel has continued to accept the delivery of the goods unconditionally after the alleged stipulated time, causing time to be at large hence time is no longer of the essence. In addition there were variations to the contract causing time to be at large as well.

Megasteel filed a summary judgment application on the Megasteel's Claim on 27.03.2008 and the same was dismissed on 14.01.2009. Megasteel did not file an appeal against this decision

Meanwhile, PSSB has filed a Counter-Claim against Megasteel on 17 December 2007 for *inter-alia*, the outstanding sum of RM3,390,509.03 ("Outstanding Sum") as at 6 November 2007 for the DRI supplied to Megasteel. PSSB has also filed a summary judgment on admission of the Outstanding Sum on 30 March 2009 of which was also dismissed on 19 October 2009. The Court has also fixed the matter for mention of case management on 16 November 2009.

The solicitors of PSSB are of the opinion that PSSB stands a fair chance of success of defending Megasteel's claim and that Megasteel has no viable defence to the Outstanding Sum which Megasteel is seeking to set off the Outstanding Sum against Megasteel's Claim.

**(iv) Kuala Lumpur High Court Suit No. D22-788-2009  
Petrolia National Berhad ("Petronas") vs PSSB**

On 12 May 2009, PSSB was served with a writ of summons, dated 27 April 2009, initiated by Petronas claiming for the sum of RM85,795,957.50 being the alleged balance of the unpaid purchase price for the supply of gas to PSSB together with interest on various bases. The present state of the proceedings against PSSB is that both Petronas and PSSB have exchanged their respective pleadings. PSSB is disputing the claim.

By its Defence and Counterclaim dated 15 June 2009, PSSB is defending the Claim and is counterclaiming for either a sum of RM105,258,714.45 or alternatively RM99,831,484.28, depending the rate applicable. As the pre-trial steps have not been completed yet, there is no date for trial of the suit.

As at present and as advised by PSSB's solicitors, the Board is of the opinion that PSSB has reasonable prospects of success. Nevertheless, it is still open to both parties to reach a negotiated settlement of this dispute.

## 25. Proposed Dividend

There was no dividend proposed or declared for the current quarter and the financial year-to-date.

## 26. Earnings Per Share/Loss Per Share (“EPS/LPS”)

The basic earnings per share is arrived at by dividing the Group's profit after taxation by the weighted average number of ordinary shares outstanding during the financial period.

	Current Quarter RM'000	Current Year-to-date RM'000
Profit/(Loss) after taxation	13,066	(128,287)
Weighted average number of ordinary shares in issue	560,000	560,000
<b>Basic EPS/(LPS) (sen)</b>	<b><u>2.33 sen</u></b>	<b><u>(22.91 sen)</u></b>

The fully diluted earnings per share is arrived at by dividing the Group's adjusted profit after taxation by the adjusted weighted average number of ordinary shares outstanding during the financial period.

Profit after taxation	13,066	N/A
Interest saving on ICULS	<u>156</u>	<u>N/A</u>
Adjusted profit after taxation	<u>13,222</u>	<u>N/A</u>
Weighted average number of ordinary shares	560,000	N/A
Effect of conversion of ICULS to ordinary shares	<u>156,123</u>	<u>N/A</u>
Adjusted weighted average number of ordinary shares in issue and issuable	<u>716,123</u>	<u>N/A</u>
<b>Fully Diluted EPS (sen)</b>	<b><u>1.85 sen</u></b>	<b><u>N/A</u></b>

Fully diluted LPS for current year to date has not been presented as the effect is anti-dilutive.

By order of the Board,

Dato' Henry Pheng Chin Guan  
Chief Executive Officer  
Date: 6 November 2009